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China's 13th Party Congress: A Preview

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October 1987

China's 13th Party Congress: A Preview [REDACTED]

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Scope Note

The 13th Chinese Communist Party Congress, scheduled to begin in October 25, comes at a crucial juncture for China's reform program. Stalled by the fall from power of Hu Yaobang last January, reformers are still fighting to regain the initiative, while their conservative critics hope to capitalize on the congress to maintain a strong voice in policy matters. The congress, moreover, may be the last hurrah for several of China's most senior leaders, including Deng Xiaoping. Not surprisingly, Deng has worked hard in the past few months to strengthen the hand of his closest allies--especially Zhao Ziyang--and to ensure that the conclave endorses the key elements of his reform program. His more conservative peers, also seeing this as their last chance, have sought to advance their own proteges to key positions and to redirect the reform program into narrower, more orthodox Marxist channels. This series of essays examines the key issues and the stakes, as we see them, for the principal players in the Chinese leadership and speculates on the outcome and potential consequences for the reformers and their program. [REDACTED]

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China's 13th Party Congress: A Preview

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14 October 1987

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China's 13th Party Congress: Speculating on a Conservative Outcome [REDACTED]

Summary

Since late August, Chinese reform leaders, including Deng Xiaoping and Zhao Ziyang, have repeatedly claimed that the 13th Party Congress in October will provide a springboard for "deepening" and accelerating reform. Press leaks and US Embassy reporting suggest, however, that conservative party elders--who hope to direct reform into narrower, more orthodox channels--may not only hold their own but may even emerge from the Congress with a strengthened voice in economic policy for the near term. If the conservatives indeed do better than Deng and Zhao are implying, Deng stands to lose some influence. We would expect greater deference to conservatives interests and a slowing, but not a reversal, of reform. We also would expect Deng to counterattack as in the past. This time, however, he is handicapped by advanced age, the fallout from the Hu Yaobang incident, and problems with existing reforms. [REDACTED]

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Beijing's Public Line

Following the July-August preparatory meetings at Beidaihe, Chinese reform leaders and official propaganda have been notably upbeat about prospects for reform at the 13th Party Congress, to convene on 25 October:

- In meetings with foreign dignitaries, both Deng Xiaoping and Zhao Ziyang have left visitors with the impression that the Congress will decisively support reform, leading to "intensified" economic measures, the start of effective political reforms, and the rejuvenation of the party leadership.
- Mid-level officials in Beijing who privately previewed the Congress document for US Embassy officers claim the session will endorse such controversial ideas as the thesis that China is in "the initial stage of socialism" and therefore can use a wide variety of Western capitalist techniques--including "private enterprise"--to expand production.
- The official media have run a barrage of contentious commentary supporting reform, criticizing views that Zhao has labeled as "conservative and ossified," and, for the first time, publicly commenting on the impending "retirement" of Deng and other party elders.

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The Congress surely will bear Deng's imprint. Almost singlehandedly, Deng publicly set the agenda and pushed it to completion, and party propagandists are certain to highlight his personal contribution to the Congress' achievements. Indeed, we expect Deng and his allies to achieve several important objectives--some symbolic, others more concrete:

- The departure of the most senior party elders from the Politburo and its Standing Committee and the promotion of younger leaders in tune with Deng's and Zhao's ideas.
- Endorsement of economic reforms since 1978, with additional language pointing toward future reform.
- Approval in principle of "political structural reform," including the disentanglement of party committees from routine government and enterprise administration and perhaps a specific allocation of responsibilities among the top party organizations.
- Adoption of the "initial stage of socialism" theory to lend ideological legitimacy to the reform program.

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Conservative Countercurrents

We suspect, however, that the reformers' claims are exaggerated and that Deng and Zhao are under heavier pressure from conservatives than they are willing to admit publicly. We continue to see signs of conservative strength; individually they are not compelling but taken together they raise the possibility the 13th Congress will not be the resounding success reformers claim:

- At the behest of conservative ideologues Hu Qiaomu and Deng Liqun, the party disciplined five prominent proreform intellectuals in early August.
- Some younger reformist leaders apparently are being demoted: Wang Zhaoguo, an alternate member of the Secretariat and personally sponsored by Deng, recently was relegated to a provincial post and almost certainly has lost his seat on the Secretariat.
- The editor of the staunchly reformist Shanghai World Economic Herald--a publication reportedly protected by Zhao Ziyang during the anti - bourgeois liberalism episode--is slated to be replaced by the paper's party secretary, a political appointee who has meddled in editorial policy.
- The Congress document, after five drafts and review by thousands of officials at every level, may place heavier emphasis on economic planning--perhaps under the rubric of a "national industrial policy"--than expected, and will not be the "blueprint for reform" that reformers had touted. [redacted]

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Besides these developments, diplomatic sources and leaks that have surfaced in the Hong Kong press lead us to suspect the old guard has won concessions on every important item on the Congress agenda--personnel, economic and political reform, and ideology. If these reports are correct, we could easily have a situation after the Congress that includes:

- Continued prominence for senior conservative leaders: virtually all accounts of the Beidaihe meetings agree that Chen Yun, Bo Yibo, and Peng Zhen will continue to hold highly visible and potentially powerful party posts following their so-called retirements in October.
- Strategically placed conservative appointees at every important level: a variety of diplomatic and media sources claim the Politburo Standing Committee--the key party body--will have a rough balance of reformers and conservatives; current odds favor a Standing Committee of reformers Zhao and Hu Qili, conservatives Li Peng and Yao Yilin, and Qiao Shi as the swing member.
- A more conservative State Council leadership: Li Peng is by all accounts set to succeed Zhao as premier--if not in October then at the next session of the National People's Congress in the spring--with Yao Yilin [redacted] slated to become the State Council's second-in-command.

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- Orthodox language in the ideology statement: the Congress' document almost certainly will include themes that are clearly identifiable as conservative in origin. at a minimum, this will dilute the document's impact as a reformist credo while providing an ideological pretext for orthodox criticism of reform.
- Perhaps a concession to conservative interests on one or more major policy concerns: for example, the public remarks of national leaders and current media commentary seem to prepare the way for a period of economic retrenchment and for more inclusive economic planning;

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Consequences of a Strong Conservative Showing

A strong conservative showing in our view would put orthodox party elders in a good position to slow and, in some instances, to redirect reform. China already seems set for a course of "conservative reform" over the next year that shifts the focus away from sweeping systemic measures and increased reliance on markets that reformers were trumpeting a year ago, and toward microeconomic tinkering within the system and a "national industrial policy" that seems a way to accommodate advocates of large-scale economic planning. Yao Yilin's recent admonition--delivered at a joint conference on the 1988 economic plan and reform plan--to "be prepared to lead a hard life for several years" augurs another period of economic retrenchment and scaled-back reform.

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The conservatives almost certainly would attempt to water down plans for political structural reform and to divert into random local "experiments," if not to cut off altogether, controversial economic measures sanctioned by the Congress. Moreover, conservatives would in our view fall into their pattern of seeking a tougher line on artistic, cultural, and intellectual policy to combat anew the spread of "bourgeois liberalism."

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If the conservatives do as well as the straws in the wind suggest, Deng stands to lose some influence. Certainly most Chinese, both leaders and public alike, would see him as having been cut down a notch and attribute it to the Hu Yaobang episode. In practical terms, we believe such a result would force Deng into a greater collegiality, meaning greater deference to conservative interests, and would restrict his ability to set the domestic agenda. For younger leaders who may have hoped to see authority shift to them, it would mean that the old men would remain in charge behind the scenes.

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Deng characteristically has rebounded smartly from past setbacks, and we view him as unlikely to accept a possible conservative advantage for long. Although Deng's authority has eroded somewhat since Hu's ouster, he remains China's central political leader. Deng nevertheless would face an accumulation of obstacles--his age, the continuing effect of the Hu ouster, problems with the reforms--that would complicate a reformist counteroffensive. At a minimum, we would expect him to:

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- Provide a strong propaganda buildup for Zhao as China's key day-to-day leader.
- Work through Zhao and his allies to put the best media face on the Congress.
- Try to circumscribe the authority of conservative elders and their proteges--perhaps focusing at the outset on restricting the reorganization of Zhao's State Council staff, which we expect would receive marching orders from Li Peng and Yao Yilin sharply different from those during Zhao's leadership.

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DIRECTORATE OF INTELLIGENCE

20 August 1987

China's 13th Party Congress: A Primer [redacted]

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Summary

The National Party Congress of the Chinese Communist Party serves as a national forum for legitimizing the membership of the Central Committee and for setting the tone and direction of Beijing's policies. Deng Xiaoping has used past congresses, Central Committees, and other national party meetings to drive his reform program and, by recasting the party's leadership in a reformist mold, to consolidate his power. Although the leadership makes its most important decisions in closed sessions before the national conclave, it is left to the congress formally to announce the results of the deliberations. The stakes this fall are high as reformers and conservatives maneuver to gain personnel appointments and influence the direction of China's modernization program. [redacted]

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Congress Mechanics

The party constitution identifies the National Congress as the party's top-ranking body and mandates that it be convened by the Central Committee once every five years. Although congresses generally have been rubberstamp bodies that, until 1977, served for irregular lengths of time, the Chinese propaganda apparatus treats acts of the congress as the authoritative "will of the party." As such the congress symbolizes the collective wisdom of the party. It is used to legitimize leadership changes and serves as an occasion to proclaim broad consensus on the party's "line, principles, and policies."

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The approximately 1,600 congress delegates are selected from China's provinces, autonomous regions and municipalities, the central organs--both party and state--and the People's Liberation Army. Although provincial media recently have publicized the elections of the delegates, we suspect they are chosen from a preapproved list of candidates provided by the central authorities.

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The congress's most important task is the endorsement of a new party Central Committee--a body whose membership is actually determined in hard, behind-the-scenes bargaining¹ among senior leaders. Most holders of top-level party, state, and military positions, including State Council ministerial posts, provincial party secretaries and governors, and the military high command, are Central Committee members ex officio. Other Central Committee seats may go to individuals marked for higher office or to selected members of professions, science, education, or the arts, whose presence gives the committee a representative look.

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The Central Committee,² like the congress, is not a "working body" in any real sense. Party convention decrees that all party decisions be issued in the name of the Central Committee, and the party bureaucracy is termed the "organs under the Central Committee." When the committee convenes, usually once a year, it formally constitutes China's highest decisionmaking body in place of the National Congress. At all other times, however, the power of the Central Committee devolves upon the Politburo, and, when the Politburo is out of session, its Standing Committee. The Standing Committee makes the decisions that are the basis of Chinese policy. Unless the decisions of the Standing Committee are placed before the Politburo for additional deliberation, the

¹ The resort town of Beidaihe has become the annual summer retreat where top leaders prepare for upcoming party meetings. At Beidaihe Central Committee retirees and replacements are decided, new Politburo and Secretariat arrangements worked out, and major policy directions planned. Sometimes leading nonparty figures are invited to attend working sessions to present details of plans and policies relating to their own professional specialty.

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² The Central Committee has expanded with each party congress. The 12th Party Congress had 343 full and alternate members, the 11th had 333 members, the 10th had 319, the ninth only 278, and the eighth less than 100. The 13th Congress may again expand the Central Committee, but State and media reporting suggests that the size could be reduced as a "political structural reform."

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committee's guidelines are transmitted directly to the Secretariat for action. [REDACTED]

The National Party Congress also elects the Central Advisory Commission (CAC) and the Central Discipline Inspection Commission (CDIC). The CAC is Deng's creation and, while it might perform an informal advisory function, Deng intended the body to be a retirement ground for elderly party leaders creating headroom for younger party officials in the Politburo and in top party and state positions. In 1978, the Third Plenum of the 11th Party Congress reestablished the CDIC, which oversees the conduct of party members. The constitution adopted at the 12th Party Congress specifies that both the CAC and the CDIC are under the leadership of the Central Committee, and that the heads of both must be Politburo Standing Committee members. Since then, Deng has chaired the CAC, and leading economic conservative Chen Yun has headed the CDIC. [REDACTED]

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The congress also endorses the political work report that reviews the state of the party during the term of the preceding congress and may set the general line for the next five years. The party chief or his designee delivers the report, which is comparable to the annual plenum reports. The work report is endorsed by leaders during the pregress meetings. [REDACTED]

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Moreover, the congress may promulgate authoritative resolutions on matters of broad policy. No party congress since 1958 has produced a specific policy document, but plenary sessions of the Central Committee routinely do. Generally, party pronouncements are circulated in draft months before a national meeting and, like personnel appointments, are hotly debated within the top leadership. At the meeting itself, public discussion of the draft is pro forma, but there is nothing to prevent the leadership from incorporating additional changes based on comments from the floor. Policy statements can be embodied in the work report, rather than separately addressed. [REDACTED]

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Finally, the congress has the formal right to amend the party constitution. In fact, the party charter has been rewritten at every congress since 1956, suggesting its wording tends to reflect the political strength of its progenitors rather than any effort to establish durable institutions and procedures. Constitutional revisions offer insight into the direction and goals of China's current leadership. As such, for example, in the 12th Party Congress constitution Deng replaced Cultural Revolution-era wording that stressed continuing revolution and class struggle with language emphasizing economic modernization. [REDACTED]

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The congress is not responsible for naming the party's highest leaders. This is the chief function of the first plenary meeting of the reconstituted Central Committee, which convenes immediately after a congress. The committee then endorses prearranged choices for party General Secretary and membership of the Politburo, the Politburo Standing Committee, and the Secretariat. The Central Committee also puts its stamp on the membership of the Central Military Commission--the party body that oversees the Army--and which again must be chaired by a Politburo Standing Committee member. [REDACTED]

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Deng's Track Record

National party meetings serve as deadlines that force the leadership to decide on controversial issues. Deng characteristically has done well at such sessions, and has used them to advance his reform program. He has, for example, used the 12th Party Congress and the 1985 Party Conference of Delegates³ to transform a party leadership originally stacked against him into one that predominantly supports reform:

- The composition of the Central Committee has gradually shifted from older, ideologically oriented central planners to younger, more pragmatic and technically competent officials.
- Deng has steadily decreased the proportion of military leaders on the Central Committee and the Politburo as part of his plan to distance the Army from the party and make the military clearly subordinate to civilians.
- Deng has moved younger, better educated, reform-minded cadres into provincial party and government posts. Hunan's party secretary Mao Zhiyong is the only top provincial leader predating the launch of Deng's reforms.

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Deng also has used the national party meetings to reconstitute the party's structure, which was dismantled during the Cultural Revolution:

- At the 1980 Central Committee Plenum, Deng reestablished the Secretariat, his own power base before it was dismantled during the Cultural Revolution. Deng almost certainly intended to bypass the superannuated Politburo as a policymaking body by turning over substantial decisionmaking authority to the newly created Secretariat.
- At the 12th Party Congress two years later, Deng eliminated the positions of party chairman and vice chairman, leaving his then-protégé Hu Yaobang at the top of the party ladder as General Secretary.

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Communiques and other resolutions issued by the congresses and plenums provide the highest expression of party policy. Deng has tried to muzzle his critics by having reforms spelled out in Central Committee resolutions:

³ Deng convened the extraordinary September 1985 National Conference of Party Delegates to overhaul the membership of the Central Committee. The lack of restrictions on who may attend a specially convened conference--as opposed to a formal party congress, which must "elect" delegates--permitted the reformist Secretariat to select 300 "at large" delegates, thereby guaranteeing Deng majority support at the meeting. The only previous party delegates conference was held in 1955.

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- The communique of the watershed Third Plenum of the 11th Congress in 1978 was the opening shot in Deng's reform offensive, endorsing pragmatic agricultural policies and measures to decentralize power.
- The Sixth Plenum of the 11th Congress in June 1981 passed the "Resolution on Party History," which admitted the fallibility of Mao Zedong, condemned the Cultural Revolution, and criticized policies Mao pursued from 1958 onward.
- The Third Plenum of the 12th Congress in October 1984 approved the "Decision on Reform of the Economic Structure," which, although short on specifics, established a blueprint for future urban reforms such as the factory manager responsibility system and price reform.
- Although we believe reformers compromised with conservatives on the tone of last year's Sixth Plenum resolution on the "Guiding Principles for Building Socialist Spiritual Civilization," the document reaffirmed the reformist line and laid the groundwork for devising ideology compatible with China's reforms.

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The 13th Party Congress

The agenda of this year's congress is more crowded than any since 1956. We believe the following issues will constitute the main battlegrounds as leaders maneuver to advance their positions:

- **Composition of Party Leadership.** The proportion of identifiable conservatives and reformers on the new Central Committee will give a rough indication of each's strength. Both groups will be trying to get as many supporters on the Committee and on the Politburo, its Standing Committee, and the Secretariat as they can.
- **Other personnel changes.** We expect Zhao Ziyang to be confirmed as Party General Secretary, but he may retain the premiership until the until the National People's Congress (NPC) next spring. We believe the decision on the next premier will already have been made going into the Party Congress, and the proceedings of the congress and the following plenum may offer hints of the next premier.*
- **Revision of the Constitution.** The congress will have to make substantial changes if Deng resigns from the Politburo but keeps either the chairmanship of the CMC or the CAC, as he has indicated he would to several foreign visitors. The constitution may also have to be adapted to accommodate organizational

* We expect the next premier to be appointed to the Politburo Standing Committee, and he may assume substantial state duties. For example, in 1980 Zhao Ziyang was appointed "executive Vice Premier" in charge of the daily supervision of State Council work following the Fifth Plenum of the 11th Congress while then-Premier Hua Guofeng maintained his title until a September NPC plenum.

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changes as part of "political structural reform."

- **Political Structural Reform.** A drafting group has been working on a document since last spring that reportedly lays out guidelines for political structural reform, to include such topics as the separation of the powers of party and government, a decentralization of political control, the streamlining of party and state administrative organs, and reform of the personnel system.
- **Economic Reform.** According to State reporting, there is general consensus among Chinese leaders of the necessity of economic reform but there is disagreement on China's next step. We believe the congress document will summarize the accomplishments of reform over the past eight years and will lay the groundwork for further reform.
- **Ideology.** Reformers want a document that establishes an ideological basis for reform and protects their program from conservative criticism. Conservatives will probably attempt to insert Marxist rhetoric that might later justify restricting reformist measures on ideological grounds. [REDACTED]

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Appendix: Selected National Party Meetings 1977-86

11th National Party Congress, August 1977

- Sets goal of creating modern, industrialized China by the year 2000

Third Plenum, December 1978

- Shift in priority of party's work to economic modernization, emphasis on rural reform
- Hu Yaobang named to Politburo, Zhao Ziyang as an alternate
- Establishes the Central Disciplinary Inspection Committee

Fourth Plenum, September 1979

- Reconfirms agricultural policies initiated at the Third Plenum
- Begins criticism of Cultural Revolution and reevaluation of Mao

Fifth Plenum, February 1980

- Promotes Hu and Zhao to Politburo Standing Committee
- Removes four Deng opponents from Politburo
- Reestablishes the party Secretariat, headed by Hu Yaobang
- Rehabilitates Liu Shaoqi

Party Work Conference, December 1980

- Endorses Deng as Military Commission Chairman, Hu as party Chairman

Sixth Plenum, June 1981

- Hu Yaobang officially replaces Hua Guofeng as Party Chairman
- Deng officially replaces Hua Guofeng as Chairman of the Military Commission
- Promulgates the "Resolution on Party History," a reevaluation of party history that admits Mao made mistakes

12th National Party Congress, First Plenum, September 1982

- Deng places nine supporters on the Politburo
- Hua Guofeng removed from Politburo Standing Committee
- Positions of Party Chairman and Vice Chairman eliminated
- Replaces over half of the Central Committee with members who support Deng's policies
- Removes conservative Peng Chong from Secretariat
- Endorses rectification campaign
- Both Hu's party work report and party constitution hold that economic development is the party's principal task for the rest of the century
- Establishes the Central Advisory Commission

Second Plenum, October 1983

- Endorses Party Rectification Drive
- Launches Spiritual Pollution Campaign

Third Plenum, October 1984

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- Announces that an extraordinary conference of party delegates would convene to "readjust" Central Committee, Politburo, and Secretariat
- Promulgates the "Decision on Reform of the Economic Structure," emphasis on urban reform

Fourth, Fifth Plenums, Work Conference, Conference of Delegates, September 1985

- 65 Central Committee members resign, appoints 91 new members
- Appoints six new Politburo members, five new Secretariat members

Sixth Plenum, September 1986

- Promulgates the resolution on the "Guiding Principles for Building Socialist Spiritual Civilization," endorses the "open door" policy, lays ideological groundwork for reform

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DIRECTORATE OF INTELLIGENCE

20 August 1987

China's 13th Party Congress: Players and Stakes

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Summary

The 13th Party Congress, scheduled for October, is the last party congress that leaders of the revolutionary generation can be confident of attending. Deng Xiaoping had hinted that this congress would transfer power to a new generation. Accordingly Deng, Acting General Secretary Zhao Ziyang, and their allies will be pressing to advance their personnel preferences and put their stamp on the congress document, but against the strong resistance of conservative rivals such as Peng Zhen and Bo Yibo. We believe reformers have an edge now, but the party's conservative wing will continue to pose a challenge. The month of top-level meetings to prepare for the congress probably has seen tense infighting.

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Four issues are at stake: the succession, political reform, economic reform, and ideology. Preparations for a succession after Deng eventually departs will overshadow all other debates and involve selecting appointees for top posts and choosing a new Central Committee. The congress will address key policy concerns in a formal document or documents. A decision on political reform centers around reducing the role of the party in administrative and economic affairs. A statement on economic policy will summarize eight years of reform and take up the questions of economic decentralization and the role of the market in China's economy. Reformers will also seek an ideological statement to support their approach against conservative charges that many reform policies are not "socialist." The decisions, in our opinion, will probably reflect a mixture of views, enabling both sides to use parts of it to support their positions.

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The Players

As the leadership meets in Beidaihe for the decisive pregress sessions, the important actors in the decisionmaking fall generally into two camps that we and the Chinese label, for convenience, reformers and conservatives. The political spectrum in China today is much narrower than in the past, and all the leaders in power have shared the goal of undoing Cultural Revolution policies after Mao's death. As reform gathered momentum, some leaders grew alarmed at the speed and breadth of reforms being implemented or contemplated; this group we call the conservatives. However, there are few clean lines drawn, and a number of top figures really constitute swing votes--for example, those who support greater autonomy for lower level economic decisionmakers but oppose loosened political controls.

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The reform camp is led by China's most powerful figure, Deng Xiaoping, and also has Zhao Ziyang, who probably ranks second in influence although he lacks the prestige of the revolutionary elders. Most of the younger leaders in a position to move up are reform sympathizers as well. The post-Mao improvements in China's economic, political, and international situations all work to the benefit of the reform wing.

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Their conservative opponents are probably numerically dominant at the uppermost levels of leadership, but have the age factor against them. Most are in their seventies and eighties. Conservatives have been unable, until recently, to win appointments for their sympathizers, and therefore face an uphill battle at the congress. To a great extent, they are attempting to displace an established group. Nonetheless, they have made important gains since Hu Yaobang fell,¹ placing supporters in important

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Well-connected Hong Kong political journals and party documents released to Western media following the incidents of January list an accumulation of missteps by Hu that led to his dismissal. His idiosyncratic personality, relatively generous tolerance of intellectual dissent, and willingness to challenge the elders--and, it

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propaganda and personnel posts--for example, Wang Renzhi, new director of the Propaganda Department, and Song Ping, the new head of the Organization Department.

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Conservatives go into the pregress battle without a clear commander in chief, which also weakens their position. Deng has shown a great ability, in the past, to splinter his opposition's leadership, and he probably will have some success at it this time as well.

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With all the weaknesses of the revolutionary generation, however, the combined clout of its members, most of whom are conservative, should not be underestimated. Moreover, in our judgment, their views have a large, if inchoate, constituency of those who are frightened or threatened by reform. Conservatives can also claim to represent the voice of prudence and caution, a powerful appeal in China, a society with a turbulent recent history and a profound fear of instability.

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The Issues at Stake

All party congresses are important because they remake the leadership and lay down the policy line intended to shape the ensuing five years. However, the 13th Party Congress, scheduled for October, is unique in one respect. It is the last party congress that many of the revolutionary elders, including Deng Xiaoping, can be sure they will attend. Therefore, Deng, his allies, and those opposed to his plans will all be working to effect their personnel and policy choices--knowing that this may be their last opportunity. As they have in previous years, the leadership has retired to the resort town of Beidaihe, where they meet to make the crucial decisions that the congress will ratify and announce. Four interrelated issues are at stake--the succession, political reform, economic reform, and ideology.

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The Succession

The succession--not only to Deng Xiaoping but to several important posts--is the issue that, though not formally on the agenda, will underlie all the debate at the congress. The 13th is the congress where Deng had hinted he would transfer power to a new generation of leaders. Although the ouster of Hu Yaobang in January threw all previous arrangements into disarray, we believe that Deng still intends to use this congress to set up a group of successors--people not only sympathetic to his aims, but with the judgment and prudence to help realize them. By the same token, conservative leaders, like Deng, are eyeing the time when the revolutionary generation will be gone. We expect that they, too, will push their own proteges, trying to put enough of them in position to affect economic and political policy.

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seems. Deng--apparently led his erstwhile mentor to loose confidence in him.

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Deng's experience with Hu Yaobang will, in our view, make him careful to choose candidates who will not antagonize the powerful old guard, and whom party elders find acceptable. He will probably have to compromise and deal--we believe his position was weakened by the Hu incident--but Deng has a long history of finding the right combination of enticement and pressure to advance his goals. He has also generally been very skillful at orchestrating party meetings. [REDACTED]

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A number of succession decisions need to be made at the congress. The most important post needing to be filled is General Secretary of the Chinese Communist Party, formally the highest ranked post. (In China, power and position do not necessarily coincide: Deng, the unquestioned top leader, has never formally held the party's top slot.) Zhao Ziyang currently is Acting General Secretary; Chinese comments to foreign visitors and to the US Embassy indicate he will be confirmed as party chief. If so, Zhao will gain an edge in the post-Deng maneuvering. [REDACTED]

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One of two particularly troublesome succession choices is a new head for the party's Military Affairs Commission (MAC), a job Deng now holds. There is, in our estimation, a dearth of civilian party leaders who have good relations with the military and sufficient prestige to be acceptable to powerful soldier-politicians. Conversely, none of the younger generation of military leaders appears to us to have the party credentials for a seat on the Politburo Standing Committee, which the job now carries with it. The MAC chairman will have to persuade the Army to accept reforms--many of which entail a loss of status and revenue for the military--and to keep the Army on board with the broad outlines of the reform program. Although we believe Deng has diminished the Army's political role, it is still politically prudent to have at least the grudging acquiescence of military leaders. One factor in Hu's fall was his inability to accomplish this [REDACTED]

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Party bodies will be overhauled at the congress, and both sides want their choices on the Politburo, its Standing Committee, and the Central Committee. It is at the Central Committee level that conservatives probably hope to make gains--with so many slots to be filled, it is harder for Deng to control all the choices. At a minimum, one result of Hu's fall is that conservatives will lose less ground at the congress than they would have. In our view, they may even be able to make some modest gains, but probably will not be able to dominate even at the Central Committee level. [REDACTED]

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The selection of a new premier is the other particularly contentious personnel decision. Because the premiership is a government post, the party congress may not make the announcement of a new premier, but the job entails ex officio membership on the Politburo Standing Committee, and we believe the leadership will settle on a choice by the October conclave. If the announcement is delayed, the National People's Congress meeting in the spring of 1988 is a likely venue for it. [REDACTED]

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Zhao now holds the post of premier as well as being Acting General Secretary, but we expect him to resign the government post. Even though Zhao has won high praise as premier and his experience in many ways better suits him for that job, Deng seems intent on separating party and government functions. A wide variety of sources indicates, however, that choosing Zhao's successor has not been easy and the decision

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almost certainly is still being debated. The premier is responsible for overseeing economic policy, and as China moves further into difficult and politically volatile areas of reform, the job will be difficult. Stories in well-connected Hong Kong journals, as well as hints given a US official, indicate that Deng will opt for an older man as a compromise transitional figure, rather than trying to follow his earlier plan of choosing someone in his fifties. Opting for an older man would not only, in our view, be more acceptable to conservatives; Deng himself may have more confidence in the skills and judgment of one of his generation. [REDACTED]

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Political Structural Reform

The congress will endorse a decision on the controversial question of political structural reform. We believe it will be a statement of general principles, not a detailed outline. Deng has argued in numerous speeches, including one made in August 1980 and republished in an enlarged version this year, that political structural reform is a necessary corollary of economic modernization. Calls for political reform were taken by some reformist intellectuals to mean genuine and sweeping changes in the direction of democracy, which alarmed many in the leadership and contributed to last year's crackdown on student demonstrations. Deng's meaning is much narrower. His goal is greater efficiency, not greater freedom. In Deng's view, political reform entails, as laid out in his speech, separating party and government functions; delegating power to lower levels; streamlining organizations; reforming personnel selection to eliminate favoritism and stress qualifications; and expanding "socialist democracy." However, Deng and his reform theorists have been unable to come up with precise details on what exactly these goals mean and how to accomplish them. [REDACTED]

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The policy disagreements between reformers and conservatives on this issue are largely matters of degree, leaving aside those radical reformers, mainly intellectuals, who pushed such ideas as a multiparty system. Most leaders favor some devolution of power, streamlining, and better personnel selection. But conservative leaders would be much more reluctant, we believe, to significantly reduce the party's role in either government activity or economic management. They have also shown much less willingness to make the sacrifices and take the risks some of these measures carry. In particular, they have opposed efforts to streamline organizations because this policy threatens to weaken their patronage networks. [REDACTED]

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Economic Reform

The congress will also issue a statement summarizing reform's accomplishments to date and laying down guidelines for future steps. Conservatives and reformers disagree on a number of economic questions, but the basic disagreement is over the roles of the party and the central planning mechanism in the economy. We expect conservatives will attempt to use recent problems--a growing budget deficit, a leveling off in grain production, and a shortage of foreign exchange--to hit reform policies and

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argue for their modification. The reform group in our view, will press strongly for party endorsement of past measures and of a statement justifying reform experiments in ideological terms. They probably will try to head off their conservative critics, however, by maintaining that reforms will be carried out within the general framework of a socialist planned economy. The success of reform in boosting standards of living gives them a strong hand. [REDACTED]

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Ideology

The final issue on the table at the congress is an ideological justification of the free-market-style reforms. Deng has indicated that this document will have a reformist cast: according to credible Hong Kong press, he ordered that the propaganda, which had had a conservative tone in the wake of Hu's ouster, begin pushing reformist themes so the document would not come as a surprising departure. We expect conservatives to follow tactics they have used in the past, asking that the document emphasize socialist themes even as it announces reformist policies. Last year's Sixth Plenum document, for example, reaffirmed several reform policies but had a conservative tone in its theoretical sections. Inclusion of such conservative concerns as the importance of resisting "bourgeois liberalism" gives the conservative camp a lever it can use to attack reform. [REDACTED]

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Reformers historically have had difficulty putting an ideological base under their pragmatic policies, because it is hard to find support in Marxist-Leninist theories for many of their measures. Although this may matter little to the average Chinese, it is important to revolutionary elders and to some party functionaries. In recent weeks, reformist writers have previewed the document's main argument that pragmatic reforms, even when they smack of capitalism, are justifiable because China is only in the "initial stage of socialism." However, this view has been broached before without being accepted. We believe the congress document will probably contain many compromise passages that each side will freely interpret in future policy clashes. [REDACTED]

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Appendix A

A List of Major Players

Reformers

- Deng Xiaoping, Politburo Standing Committee; Chairman of the Central Military and Advisory Commissions, 83--the top leader, sympathetic to many conservative concerns but at the congress definitely will push to extend reform.
- Zhao Ziyang, Politburo Standing Committee; Premier; Acting General Secretary, 68--slated to take over the top party job a skillful administrator who is more moderate and cautious than Hu Yaobang; known for a reasoned, conciliatory style.
- Yang Shangkun, Politburo; Executive Vice Chairman, Military Commission, 80--in many respects, particularly on social control issues, a conservative, but a Deng confidante who we believe will support Deng at the congress. May get promoted to the Politburo Standing Committee, and is a candidate--albeit a transitional one--to replace Deng as Military Commission chairman.
- Hu Qili, Politburo; Secretariat, 58--a Hu Yaobang protege, once considered Hu's heir as party head, appears to have survived his mentor's disgrace. Chairs Secretariat meetings in Zhao Ziyang's absence.
- Wan Li, Politburo; Secretariat; Vice Premier, 71--senior vice premier, one of the architects of the agricultural reforms that launched reform's economic success, a favorite for the premiership if Deng opts for an older, caretaker figure.
- Tian Jiyun, Politburo; Secretariat; Vice Premier, 58--a Zhao favorite, came up from Sichuan Province with Zhao, in 1986 was put in charge of overall economic reform. A self-taught finance specialist.
- Qiao Shi, Politburo; Secretariat; Vice Premier, 63--oversees political and legal matters, is lukewarm on political reform but generally sides with reformers. Another Hu Yaobang associate who survived.

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Conservatives

- Chen Yun, Politburo Standing Committee; First Secretary of Central Discipline Inspection Commission, 82--China's leading conservative economist, rivals Deng Xiaoping in prestige but lacks his political acumen [redacted] 25X6
- Peng Zhen, Politburo; Chairman, National People's Congress, 85--in spite of his age, possibly Deng's strongest rival. Very active after Hu's fall, seemed to be working to gain support of some reformers. Powerfully connected in party and security organizations.
- Wang Zhen, Vice Chairman, Central Advisory Commission, 79--although a conservative, a close friend of Deng Xiaoping. Believes party control needs to be strengthened. One of the key influences in Deng's decision to drop Hu.
- Bo Yibo, Permanent Vice Chairman, Central Advisory Commission, 79--a Chen Yun protege [redacted] 25X1
- Yao Yilin, Politburo, Secretariat, Vice Premier, 70--probably the most conservative in economic policy of the vice premiers, another Chen Yun supporter and protege.
- Hu Qiaomu, Politburo, 75--a Marxist theorist, Hu has been one of the strongest critics of reformist tolerance for heterodoxy. Believes reforms threaten social order.
- Deng Liqun, Secretariat, 72--another ideologue, since Hu Yaobang resigned Deng has been especially vocal and open in his attempts to engineer a "counterreformation" that would reverse some reforms.
- Li Peng, Politburo, Secretariat, Vice Premier, 58--the most eminent of the younger leaders we identify as conservative, Li, a technocrat, supports some reform but leans toward a strong role for central planning. Supported by Chen Yun and other elders, in part because he is the adopted son of the late Zhou Enlai. Li is another of those whose name often surfaces as a future premier. [redacted] 25X1

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DIRECTORATE OF INTELLIGENCE

02 September 1987

China's 13th Party Congress: The Succession Issue

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Summary

Deng Xiaoping has had no more success than Mao or Communist leaders elsewhere in arranging a succession. We doubt that Deng has forged a consensus behind a new succession package since Hu Yaobang's downfall in January. Indeed, although Deng still has formidable political resources at his disposal, which he undoubtedly will use on Zhao Ziyang's behalf, we believe he is not in a position to overcome--either at the coming party congress or any time soon--the influence of conservative leaders powerful enough to upset his plans once he is gone. Instead, he almost certainly will have to accommodate them. As a result, we believe the leadership lineup that emerges from the congress will at best represent an uneasy compromise that leaves the succession to Deng unresolved.

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Deng's Goals

Deng Xiaoping is China's acknowledged "helmsman" less by virtue of his formal position than his seniority, prestige, broad network of supporters, and political skills. It was that authority Deng had hoped to bequeath to Hu Yaobang after guiding Hu's long ascent to political prominence. These plans came unravelled when Hu's political missteps and Deng's own misgivings led to Hu's downfall in January. [REDACTED]

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Failing to establish a durable succession team with Hu at its head, Deng still wants to protect his policies and allies after he is dead. Zhao Ziyang, now Acting General Secretary, seems to have replaced Hu in Deng's calculations as the leader best positioned to keep the reforms alive. We expect Deng will use his formidable influence, which remains critical to Zhao, to bolster Zhao's position and authority:

- Deng has won for Zhao the post of Acting General Secretary, and will ensure Zhao's endorsement as General Secretary at the party congress.
- Deng will broker the selection of the top party leadership to provide politically compatible company for Zhao within the Politburo, Secretariat, and Central Committee.
- He almost certainly will grant Zhao substantial say in staffing the party and state bureaucracies, thereby assuring Zhao of a broadened political base.
- Deng generally has allowed the General Secretary wide latitude in formulating party policy and controlling, together with government leaders, the reform agenda.
- Perhaps most important, Deng will stake his own prestige on the suitability of his chosen political heir--those who challenge Zhao know that they challenge Deng as well. [REDACTED]

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No Free Hand

Unlike Mao Zedong, however, Deng is not an autocrat capable of imposing his will on the rest of the leadership. Deng is constrained by implicit political rules governing the leadership collective. With China's ruling elite thick with aged grandees of independent influence, Deng is compelled to broker patchwork compromises that preserve the semblance of leadership unity. Consequently, he cannot promote only his protege's political interests while single-mindedly opposing Zhao's rivals at every turn. In Deng's consensus-style politics, he has been loath to completely alienate leaders who speak for a definable segment of the party, and he consistently takes the views of the party's conservatives into account. Deng's apparent equivocation on such issues as "spiritual pollution" in 1983 and "bourgeois liberalism" earlier this year demonstrate his efforts to strike a rough political balance--and mollify men such as Peng Zhen and Deng Lihou sufficiently to ensure their support for at least the broad goals of reform, if not always particular policies. [REDACTED]

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[REDACTED]

For all his ability to manipulate events, Deng probably can do little now to secure the future for a chosen political heir. Having more freedom to take positive steps to support Zhao than to remove potential opponents, Deng almost certainly will be unable to neutralize leaders powerful enough to upset any plans he may lay. We doubt that patent ploys such as Deng's own "retirement"--together with the departure from senior posts of other old guard leaders--will reduce the seniority and deference commanded by his conservatives rivals. [REDACTED]

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Even presuming Deng had a different succession lineup in mind, we believe he recognizes such a package would stand little chance of overcoming conservative opposition at this congress. At most, therefore, we expect him to pursue the traditional tactic of packing the party leadership, from the Central Committee to the Politburo Standing Committee, with his supporters, thereby seeking to weight the overall political balance in favor of reform, with an eye to shaping the future. [REDACTED]

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No Clear Line

Although Zhao's position will be stronger after the congress, we do not expect a clearly defined line of succession to emerge from the conclave. Rather, we believe--along with many well-connected Chinese--that the party congress will be inconclusive on the succession issue. Middle-level officials close to Zhao's circle of advisors have told the US Embassy that they are already looking toward the 14th party congress, and even the 15th in 1997, for a decisive victory of reformist leaders and ideas. [REDACTED]

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The Elusive Succession

The succession issue has dominated the agenda of every major party assemblage since 1956. From the late 1950s until his death, Mao repeatedly sought to establish a stable line of political heirs, only to reconsider and undo his work in every case but the last. When Mao died in 1976, he left Hua Guofeng as his chosen successor. The powerful party old guard--resurgent after the Cultural Revolution and led by Deng--deposed Hua in late 1980. [REDACTED]

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In supplanting Hua, Deng disavowed personal designs on the top spot and instead planned to establish his own team, with Hu Yaobang slated for the top party slot and Zhao Ziyang as premier and faithful second-in-command. By 1985, however, Deng seemed to be second-guessing his choice of the controversial Hu. That summer he sought leadership endorsement for a deal to move both Hu and Zhao off center stage and to hand over the top posts to leaders in their fifties who were not themselves transitional. We believe this plan foundered on Deng's inability (or, in hindsight, unwillingness) to secure the chairmanship of the party Military Commission for Hu, and Deng ultimately wound up scrapping his own arrangements. In deciding to sack Hu and elevate

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Zhao last January, he almost certainly reasoned, in our view, that his reform policies and political legacy were safer in Zhao's more temperate care. [REDACTED]

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[REDACTED]

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DIRECTORATE OF INTELLIGENCE

21 September 1987

China's 13th Party Congress: The Ideology Issue

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Summary

The 13th Party Congress will attempt, in the words of a prominent Chinese intellectual, to "unify understanding" on ideology, marking the latest step in a nine-year effort to establish the theoretical underpinnings of economic reform. Since Deng Xiaoping's emergence as China's paramount leader, the party leadership has fought over ideological questions perhaps longer and harder than on any other topic. Conservatives who remain committed to indisputable party control and traditional Chinese Communist values such as frugality and self-sacrifice have resisted Deng's push to win general acceptance of a "socialism with Chinese characteristics" that sanctions freewheeling market-style measures. We expect the document that issues from the Congress to provide the coherent rationale for reform that Deng wants, but

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conservatives will try to water it down and will continue to snipe at policies they regard as going beyond the bounds of Marxist-Leninist tradition and practice. [REDACTED]

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Wanted: An Ideological Reformation

Rulers of China traditionally use official doctrine to legitimize their authority and policies. Mao dictated an idiosyncratic brand of Marxism as a way for Chinese to understand the world and as a guide to practical action. Until his death, all policy had to pass the test of ideological consistency, with Mao as judge. Later, Deng worked for the dethronement of Mao's ideas but offered little to fill the resulting ideological vacuum. [REDACTED]

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Since 1978, Deng and his allies--not free to act with Mao's impunity--have tried to provide a persuasive Marxist basis for their reform policies but have been unsuccessful. The revaluation of Mao's theories beginning in 1978 and culminating with the June 1981 party resolution on historical questions, the publication of Deng's selected works in 1983, the passages on ideology in the 1984 party decision on economic reform, and the 1986 resolution on building a "socialist spiritual civilization" all marked attempts by reformers to put ideological questions behind them. The 1983 Central Committee plenum promised a special national meeting in 1984 that would resolve ideological questions, but the party leadership was too divided to bring the session off. [REDACTED]

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The efforts of Deng and the reformers are not wholly cynical. They hope to demonstrate the doctrinal validity of "socialism with Chinese characteristics" both to their conservative critics and to foreign socialists who are closely watching China's economic experiments. Reformers recognize that despite any successes, their policies will always be vulnerable to a challenge on ideological grounds unless they can be rationalized in Marxist terms. They therefore want a congress endorsement--formally the highest statement of party approval--of a document that is both authoritative as doctrine and, if not persuasive to conservative critics, useful as a political club to silence carping on points of theory. Either way, the path for policy implementation is potentially smoother if Deng can deprive his critics of their most successful tactic over the years--raising the policy dispute of the moment to the realm of basic principle, where reformers have been weakest. [REDACTED]

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Conservative Perspectives

In our view, conservative leaders are committed to orthodox doctrine for various reasons. We believe theorists such as Deng Liqun and Hu Qiaomu are "true believers" who stand or fall within the party on their moral credibility. They regard terms like "profit," "market price," and "private enterprise"--freely bandied about by reform theorists--as evil hallmarks of a capitalist system condemned by all socialist founders from Marx to Mao. Other leaders such as Peng Zhen and Bo Yibo probably are more opportunistic, regarding ideology as a powerful issue to manipulate, or simply as a means to preserve social order and undergird party primacy. [REDACTED]

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Conservative ideologues are unconvinced on three important counts: that market-style reforms in theory are consistent with Marxism-Leninism; that theoretical constraints will prevent market-style economic reforms from overrunning the socialist system; and that the party's political grip can be maintained despite a relaxation of central controls. Consequently, we believe conservatives will seek to include in the document limits on reforms they believe threaten party rule and such traditional values of Chinese Communism as frugality, self-reliance, hard struggle, and sacrifice for collective goals. They probably also will press for greater emphasis on political indoctrination to stem the shift in attitude among Chinese youth and intellectuals toward more liberal Western ideas. Conservatives may want to call attention specifically to the campaigns against "spiritual pollution" in 1983 and "bourgeois liberalism" earlier this year as instrumental in countering the social and intellectual influence of the West.

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Back to the "Initial Stage"

Although we expect the congress statement on ideology to contain passages dictated by orthodox leaders--reflecting the usual give-and-take of high-level deliberation over key party documents--Chinese officials who have previewed the document say it will strongly endorse reform. Drafted under Zhao Ziyang's supervision, it will declare that China is in the "initial stage of socialism," during which controversial experiments using "capitalist" methods are acceptable. It will argue that the framers of classical Marxism-Leninism never anticipated China's particular conditions--specifically, a Communist revolution without a capitalist stage of development. Because China never developed a solid and diverse economic base, the argument goes, the state must foster diversity by permitting a variety of economic forms, including private ownership of enterprises, to coexist to provide outlets for native entrepreneurial ability. The result will be a flourishing "socialist commodity economy."

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Although the document will sanction elements of capitalist activity, it will claim that the reforms are by definition "socialist" because they operate within a socialist system. It will argue that socialism and party rule will be guaranteed by the conspicuous enshrinement of "the four cardinal principles"--a favorite conservative catchphrase that includes upholding the socialist system, the leadership of the party, and Marxism-Leninism-Mao Zedong Thought--as unchallengeable dogma.

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Preaching to the Choir

Although plausible and deserving high marks for ingenuity, the theory behind Deng's reforms will not, in our view, go down well with conservatives. The congress document may provide a useful text for reformers to argue from but will change few minds and leave the controversy open. As in the past, conservatives almost certainly will succeed in inserting pet themes--such as the need to oppose bourgeois liberalization--that they can cite later to challenge reform policies. In fact, according to the Chinese press, the party began in late August to circulate the fourth draft of the congress document for comments and criticism. This in our view provides an eleventh

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hour opportunity for conservative critics to register complaints and propose alternate language. We believe the resulting compromise, although not entirely what Deng and his allies want, will be even less popular with orthodox leaders and on balance will be a strong endorsement by the party congress of the reform program. [REDACTED]

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DIRECTORATE OF INTELLIGENCE

23 September 1987

China's 13th Party Congress: Political Structural Reform [REDACTED]

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Summary

Deng Xiaoping has placed political structural reform near the top of the agenda for the 13th Party Congress, almost guaranteeing that the principles he has long advocated of separating state and party functions and devolving some decisionmaking powers will be endorsed in some form. Neither Deng nor other reform leaders, however, have spelled out in any detail how they hope to achieve these goals. Indeed, we believe they are still groping for ways to overhaul China's huge, entwined party and government bureaucracies. With an eye to conservative concerns, the reformers are stressing that their intent is to strengthen Communist Party rule, not to introduce the kind of Western democratic institutions advocated by some radical reformers a year ago. Even so, we believe many conservative leaders worry that any loosening of party control over the state apparatus

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and major enterprises will inevitably undermine party authority. As a result, we expect conservative leaders at most to pay lip-service to the need for political reforms while opposing or obstructing their implementation. [redacted]

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Deng Resurrects Political Reform

Prospects for political structural reform seemed all but dead after the student demonstrations last December and the subsequent fall from power of former party head Hu Yaobang in January. A key proponent of such reforms, Hu supported a freewheeling public debate over the question last year. This encouraged some intellectuals to level pointed criticism at the party and propose radical remedies such as the creation of a multiparty system. In launching their counteroffensive last January, the conservatives capitalized on the student demonstrations to accuse not only Hu but implicitly other reform leaders of encouraging the spread of bourgeois liberalist ideas. [redacted]

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This assault clearly put the reformers on the defensive. But Deng, who had laid down the basic precepts for political structural reform in a 1980 speech, told [redacted] [redacted] last March that a tentative plan for political structural reform would be

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Deng's Guiding Speech

In his speech "The Reform of Party and State Leadership Systems" given before an enlarged Politburo meeting in August 1980, Deng stated that China's leadership system is outdated and in need of reform. Deng criticized the current system as being too bureaucratic, of concentrating power at the top, of facilitating the abuse of positions, and of blurring the roles of the party and state. As a result, Deng asserted that the current system impeded China's efforts to move toward a socialist commodity economy, and warned that this incongruity could lead to instability. [redacted]

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Deng urged China's leaders to strive to invigorate the party and government; overcome bureaucratism and eliminate inefficiency, and arouse the initiative of the grassroots units including workers, farmers, and intellectuals. He emphasized the need to promote younger and professionally competent people to leadership positions. [redacted]

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In the republished version of the speech, Deng approved a new section on the factory manager responsibility system. The section explains that this reform is intended to remove the party committee from enterprise administration and economic decision making to allow party officials to concentrate on "ideological and political work." Factory party officials have resisted implementing the factory manager responsibility system because it erodes their authority. [redacted]

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announced at the party congress this fall. Starting in July with the republication of Deng's original speech, and especially in recent weeks, the reformers in fact have mounted a media campaign to build momentum for the endorsement of these reforms at the congress. With an eye to conservative concerns, the reformers have restricted public discussion largely to administrative reforms, insisting that their intent is to strengthen party rule--not promote Western-style democracy--and that they favor gradual, step-by-step implementation. [REDACTED]

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Reformer's Prescription

The renewed stress Deng has placed on political reforms indicates, in our view, that he still regards these steps as essential to overcome opposition to economic reforms from entrenched interests in the party and state bureaucracies. His prescription is fourfold:

- **The Separation of Party and Government Functions**

Reformers want to restrict the party to formulating basic policies and principles and reduce its interference in the day-to-day administration of government and state enterprises. According to recent Hong Kong press, for example, reformers plan to propose abolishing the party leading groups, appointed by the party committees, in government offices at the ministerial level. Reformers have also sought to strengthen enterprise managers at the expense of local party secretaries, who often interfere in enterprise management despite their lack of managerial and technical expertise.

- **The Devolution of Power and the Readjustment of the Administrative Structure**

Reformers want to reorganize and streamline the bureaucracy to ensure that it facilitates rather than obstructs the implementation of the economic reform program. They particularly want to reduce the size and power of ministries associated with centralized planning. At the same time, they want to expand regulatory and judicial departments as well as management companies suited to the promotion of a market-oriented economy. [REDACTED]

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Ministry of Supervision Finds a Niche

Reformers probably see the new Ministry of Supervision as an important example of the separation of government and party functions. The new bureau functions similar to the party's Central Discipline Inspection Commission, disciplining state officials just as the CDIC hears charges against and disciplines party members--including state officials who are also party members. The Ministry of Supervision may curb the CDIC's power over these state officials. We believe the new ministry also may play a large role in the campaign to punish government officials charged with "bureaucratism"--a catchall phrase for negligence, mismanagement, or corruption. The ongoing campaign, launched after the sacking of the Minister of Forestry for his mismanagement of the widespread forest fires in Heilongjiang Province last spring, may be another attempt to shake up the personnel system.

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- **Reforming the Cadre and Personnel System**

Reformers want to regularize the methods of recruiting, supervising, training, and removing cadres to establish a professional system that will attract the younger, educated, and competent personnel that are essential for China's modernization. To reduce concern among the rank and file--and to avoid exacerbating China's underemployment problem--we believe reformers have downplayed the removal of cadres. Instead, they stress the need to transfer and retrain cadres and the need for the cadres to be flexible in accepting other assignments, including demotions.

- **Strengthening Socialist Democracy**

The least well-defined goal, it ostensibly means greater participation in the policy process and encompasses such proposals as increasing the role for the National People's Congress and the local congresses, making election procedures more "democratic," and perfecting the legal system. We assume reformers hope these steps will foster greater popular support for the reform program.

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Rule of Law Versus Rule of Man

Building a strong legal system to replace China's traditional reliance on the "rule of man" has been a goal of reformers since the historic third plenum of the 11th National Party Congress in 1978. Premier and acting party chief Zhao Ziyang recently told a visiting US official that the strengthening of China's legal system is an important aspect of China's political reform. [REDACTED]

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The push to develop China's legal system is closely linked to the economic reform program and the open door policy. As the Chinese have entered into more joint ventures with foreign firms and sought to acquire more foreign technology, their need for lawyers familiar with both contract law and international patent and trademark laws has grown. [REDACTED]

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To encourage more Chinese students to major in law, official propaganda stresses the prestige of the legal profession. Legal training is also becoming increasingly common at all levels of schooling. [REDACTED]

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Despite this new commitment to "law," the party remains a law unto itself and continues to dominate the legal system. At the top, the party's Political and Legal Commission oversees the lawmaking of both the National People's Congress and the State Council. Vice Premier Qiao Shi, moreover, heads the party commission and is responsible for supervising the Ministry of Justice, thus blurring the distinction between party and government authority. Worse, the party's discipline inspection departments frequently step in to settle criminal cases involving party cadres instead of allowing the courts to try these cases according to China's criminal code. [REDACTED]

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Groping for Answers

Neither Deng nor other reform leaders have spelled out in any detail how they hope to achieve their objectives. We believe the reformers are still feeling their way, experimenting with different methods to see what will work--just as they have with other parts of the reform program. [REDACTED]

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Over the past year, for example, reformers have experimented in 16 medium-sized cities with reforms designed to reduce overlapping bureaucratic involvement in enterprise operations. Some of these cities have either eliminated the administrative companies that directly manage state enterprises or changed them into "enterprise-type companies," requiring them to become service organizations run for profit. Others have consolidated government bureaus with overlapping functions or authority, hoping to cut down on the redtape and layers of bureaucracy enterprises must consult to make decisions [REDACTED]

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[REDACTED]

These administrative reforms have met with mixed success. In Maanshan in Anhui Province, one of the 16 test cities, local officials found that, by eliminating administrative companies, they also eliminated the source of raw materials and the marketing network for finished products. As a result, to fill the void they had to create temporary offices that, in some cases, are headed and staffed by personnel from the disbanded companies. [REDACTED]

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In addition to the 16 cities, other regions have encountered problems. For example, editorials have stressed that local authorities should have the power to restructure government offices because of local conditions, instead of following the example of provincial- or national-level administrative units. Yet when Wuhan City in Hubei Province merged the Bureaus of Agriculture, Forestry, and Animal Husbandry into one bureau, the Forestry Ministry refused to allocate funds to Wuhan because it no longer had a forestry bureau. [REDACTED]

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Prospects at the Congress

The heavy propaganda drive the reformers have mounted almost guarantees that the basic principles Deng has long advocated will be enshrined in some fashion in the congress document. Reformers apparently are not ready to submit a detailed blueprint for such reforms, however. In fact, one think tank intellectual recently told Embassy officers that the statement on political structural reform would be only general and less than a page long. [REDACTED]

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We believe, given the reformers' preoccupation with personnel and ideological questions, they will be content simply to win such a general endorsement. Zhao Ziyang and other members of a special party committee set up a year ago to study political reform probably intend to work out more detailed plans over the next year. [REDACTED]

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In our judgment, however, the reformers face an uphill battle in trying to implement these measures. Party and state bureaucrats in both central ministries and their local organizations will continue to impede reform policies that threaten their interests. Similarly we expect senior conservative leaders to pay lipservice at most to political reform while opposing or obstructing the implementation of specific measures they regard as threats either to their personal power or to the authority of the Communist Party itself. [REDACTED]

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[REDACTED]

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Indeed, these proposed reforms raise very basic questions about the future role and relevance of the party that we believe pose a dilemma for reformers as well. Deng for example, is no more prepared than his more conservative colleagues to allow the party to become subordinated to other institutions or an independent legal code. Yet if his proposed reforms are carried out to their logical conclusion, party officials will:

- Be subject to the law like everyone else.
- Lose the power to intervene in government and economic decisions.
- See their influence over key appointments at the local and provincial level significantly reduced. [REDACTED]

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Moreover, conservatives fear that by placing a premium on economic results rather than on Marxist doctrine, political reforms will undermine the ideological basis of the Chinese Communist Party's legitimacy. We suspect reform leaders regard such still largely theoretical issues as far less urgent than the more immediate and pressing problem of overcoming continued resistance to reform. [REDACTED]

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[REDACTED]

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DIRECTORATE OF INTELLIGENCE

30 September 1987

China's 13th Party Congress: Economic Issues

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Summary

China's economic performance for the first half of 1987 has intensified debate about reform in advance of the forthcoming 13th Party Congress. Conservative critics have sounded the alarm at inflation, excessive increases in wages and investment, and growing budget deficits, while reform leaders have touted eight years of rapid economic growth and improved living standards. We believe the two sides have reached an uneasy standoff, with agreement on steps designed to improve enterprise efficiency. But the rift in the Chinese leadership over the extent and pace of market-oriented reforms threatens to turn the key policy issuance of the Congress into a vague and guarded endorsement of the role of market forces--and the disagreement seems certain to persist after the Congress concludes.

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This memorandum was prepared by Office of East Asian Analysis. It is the sixth in a series of typescripts examining issues, personalities and factors bearing on this fall's Congress. Information available as of 23 September 1987 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Economic Assessments Branch, China Division, OEA

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Economics in the Spotlight

According to accounts in the Hong Kong media, China's economic performance in the first half of 1987 was debated with special intensity in meetings leading up to the 13th Party Congress, scheduled to convene on 25 October. The Chinese press has highlighted sharply divergent signals on economic policy, which we believe reflect deep divisions among China's senior leaders over the extent and pace of market-oriented reforms. In late August, for example, Beijing announced a temporary freeze on previously decontrolled prices and tighter restrictions on how state enterprises can use their retained earnings. But, at the same time, party journals and reform leaders have touted the gains from reforms and affirmed that the implementation of new measures will be accelerated after the Congress. [REDACTED]

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To be sure, China's uneven economic performance in the first half of 1987 has given ammunition to both the reform and conservative camps. Spurred by a 20-percent surge in investment spending, for example, industrial output has increased at a 15-percent annual rate. But the Chinese press has noted that product quality is poor and inventories of unsalable goods are growing. Competition for raw materials for industry, and growing demand for consumer goods, have outstripped supplies, pushing prices up by an 8-percent annual rate in June--high by China's standards [REDACTED]

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Economic performance in the countryside has, to some degree, bolstered reformers' arguments, because the output of nonstaples and rural industries have increased rapidly this year. But production of grain--a politically critical staple--has stagnated, and will fall far short of its 3.5-percent growth target, according to a senior Chinese economist. News on the foreign trade front is equally mixed, for Beijing has continued last year's effort to trim the foreign trade deficit, slashing it by almost 70 percent in the first half of 1987. But although central government holdings of foreign exchange increased modestly to more than \$3 billion by midyear 1987, they remain well below the \$12 billion level Beijing recorded several years ago. [REDACTED]

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To complicate matters, increased investment and wage payments are contributing to the declining profitability of state enterprises, and therefore to budget worries. Chinese statistics show enterprise losses rising at about a 25-percent annual rate and more than one-fifth of state-owned industrial enterprises have recorded deficits this year. China's central bank has tried to rein in enterprise spending by raising interest rates, but the move has not deterred borrowing because enterprise managers are convinced the state will bail them out if they cannot repay the loans. [REDACTED]

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The Conservative Critique

Conservatives have cited China's inflation, excessive investment, budget deficits, and foreign exchange shortfalls to criticize reformers for economic mismanagement. They argue that market-oriented reforms, which have reduced the scope of administrative controls and mandatory planning, are the cause of the economic dislocations. They are probably particularly alarmed by State Statistical Bureau figures showing that China's inflation rate has increased each month since April. Conservatives

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[redacted]

may argue that social stability is jeopardized because the living standards of as many as one-fifth of urban workers have fallen this year because their wage gains have not kept pace with inflation. [redacted]

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Conservatives are correct in believing that by relaxing central controls Beijing has increased inflationary pressures. Since the early 1980s, Beijing has broadened enterprise autonomy--particularly by allowing state factories to retain a larger share of their revenues and permitting them to sell overquota production of industrial goods at "negotiated," above plan, prices. However, it has not implemented effective measures to make enterprise managers accountable if funds are used inefficiently. [redacted]

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[redacted] **Asiaweek**, a Hong Kong-based news magazine, reported in mid-July that the conservatives' strategy approaching the party congress would be to take advantage of any economic problems or public disturbances to press for endorsement of sharply limited reforms in the Congress policy document and for acceptance of their own personnel choices. Judging from past responses to economic problems, we believe conservatives want the Congress to strengthen central control of economic decision making and increase attention to mandatory plans. Conservatives would also like to lessen enterprise discretion over investment; lower monetary growth; tighten control over prices, land use, and trade; and emphasize hard work. They support efforts to increase enterprise efficiency, hence the Congress policy document may endorse wider implementation of enterprise performance contracts with supervisory bureaus. [redacted]

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The Reformers' Lament

Proponents of market-oriented reforms have overridden the practical and ideological objections of conservatives by arguing that monetary and fiscal policies can guide the economy when central controls are relaxed, and by insisting that reforms be judged by their ability to produce results, rather than by their conformity to dogma. Consequently, reform leaders have been vulnerable to conservative criticism when the economy performed poorly. It is thus no coincidence that in recent weeks reformers have orchestrated an intense media barrage to deflect attention from the conservatives' critiques, recounting improvements in the standard of living, economic growth, product variety, and other successes since the introduction of reforms eight years ago. [redacted]

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While conservatives argue that the economy's problems derive from the fast pace of reform, reformers believe that dislocations result--in part--from piecemeal implementation of reforms. For example, reformers argue that Beijing should substitute the threat of bankruptcy for the certainty of state subsidies, to motivate enterprise managers to control investment spending and wage increases. To reformers, more policy flexibility is the appropriate response, not greater central control. [redacted]

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The Clampdown on Prices

According to Hong Kong journals and diplomatic reports, since the early 1980s China's top leaders have feared the sort of public uprising that occurred in Poland when food price hikes contributed to the growth of the Solidarity trade union movement. With the release of the economic performance statistics for the first half of the year and the ensuing debates about policy, senior leaders decided to implement an across-the-board freeze on prices and to tighten restrictions on investment spending. Chinese press reports indicated that the price freeze was in response to widespread consumer complaints about rising prices, particularly of food:

- In late August, Beijing ordered prices of consumer goods, including foodstuffs, frozen for the remainder of the year. To accomplish this, it authorized local governments to set price ceilings on farm produce sold at village markets and on overquota production of industrial goods--thus retreating on recent policies that allowed sales at negotiated prices.
- Beijing announced that only capital construction projects already approved by the central government may be started in the second half of this year. And if locally funded investment spending exceeds the targets set earlier this year, the excess will be deducted from next year's target and responsible officials will be disciplined.
- Enterprise managers were ordered to keep wage increases from exceeding the growth of industrial productivity.

To ensure compliance, Beijing announced that its annual nationwide inspection of prices and finances will begin early this year.

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Reformers worry that, having exhausted the easy immediate gains from reform policies in the late 1970s and early 1980s, mounting economic problems could erode popular support for reform and slow its momentum. As a result, reform leaders are constantly on the alert for opportunities to press for further gains and avoid economic stagnation. We believe they would like to implement a series of related market-oriented policies which are especially contentious within the leadership:

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- Reformers would like a **bankruptcy** mechanism to establish market accountability for state enterprises.
- Reformers argue that the state should **lease or sell small state enterprises**, particularly those sustaining losses, to individuals. This not only would ease the government's subsidy burden but would make the factories more responsive to market forces. Moreover, they view the expansion of private enterprises as a means of absorbing surplus labor.
- Reform leaders call for **further commercialization of agriculture**. Recent articles in the Chinese press argue that, to boost grain production, Beijing should hike procurement prices and continue to reduce the amount of grain peasants must sell under contract to state supply units. [REDACTED]

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Looking Ahead to the Congress

Because the mixed performance of the economy this year has awarded no clear vindication to either the conservative or the reformist camp, we doubt that either side will score a clear-cut victory on this issue at the Congress. If anything, we believe conservatives have reached a modus vivendi with reformers that amounts to the lowest common denominator of acceptable policies, focusing reform on improving enterprise efficiency and deferring the hard choices--such as price reform--until after the Congress. Recent public statements by conservative leaders seem carefully crafted to appear supportive of reform--for example, by espousing reform of the planning system--while stressing that priority should be given to restoring economic stability [REDACTED]

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Thus despite this year's economic problems, the Congress's policy document will probably approve the general direction of economic reforms and affirm that market forces can play a key role in driving China's modernization program. A senior Chinese official told US Embassy Beijing that the document will lay the ideological basis for far-reaching future reforms. [REDACTED]

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We believe, however, that, because of the sharp split among senior officials over economic policy, the document will not provide a detailed account of how Beijing plans to proceed with reforms. The Congress probably will couch its endorsement of reform in rhetoric that reaffirms China's long-term commitment to socialism, thereby watering down its endorsement of market mechanisms. Approval of the Congress document therefore will not reduce contention over economic policy. In fact, by treat the symptoms--excessive investment spending and price hikes--rather than attacking the disease--lack of market accountability--reformers probably have prolonged the period until Beijing will have adequate monetary and fiscal tools to moderate the strong demand pressures generated by relaxed central controls. [REDACTED]

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DIRECTORATE OF INTELLIGENCE

08 October 1987

China's 13th Party Congress: Trade and Investment Issues

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Summary

Improved trade performance in the first eight months of the year probably has muffled debates over the management of China's external economic relations in the weeks leading up to the 13th Party Congress. Although foreign investment commitments have declined this year--in part because potential investors have postponed decisions until after the Congress--we believe this issue has not weighed heavily in the pre-Congress debates because neither side is willing to advocate a particular strategy for dealing with the issue. Nor do we expect statements relating to the management of foreign trade, investment, and external debt to be a significant part of the document that emerges from the Congress, because the more thorny issues of leadership succession, political structural reform, ideology, and domestic economic reform will take precedence. Final decisions on new trade reforms, currency adjustments, and investment regulations probably will be left for 1988.

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This memorandum was prepared by Office of East Asian Analysis, and is the seventh in a series of typescripts examining issues, personalities and factors bearing on this fall's Congress. Information available as of 6 October 1987 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Trade and Technology Branch, China Division, OEA

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Foreign Trade: A History of Contention

China's "open door policy" on economic relations with other countries has generally been immune from criticism, but how China has managed its foreign economic relations has prompted considerable debate in recent years. Reformers and conservatives have argued over such issues as the degree of central versus local control over contract signing, and whether production is best managed through administrative controls--licenses and quotas--or economic levers, including tariffs and domestic prices. Conservatives have criticized the decentralized trade structure in the wake of China's large trade deficit over the last three years and the resultant decline in foreign exchange holdings and growth in foreign indebtedness. They have also attacked other economic reforms that have overheated the economy, boosted demand for imported goods, and weakened control over trade and foreign borrowing. Conservative criticism intensified when China's foreign exchange holdings dipped below the politically sensitive \$10 billion level in October 1986 and again in January 1987. []

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Last February, Beijing responded by tightening central controls over foreign exchange expenditures and dramatically slowing the signing of most new import contracts. Beijing also began drawing up plans to stiffen central control over foreign borrowing and in August published regulations strengthening the State Administration for Exchange Control's authority to manage external debt. []

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In addition, officials from China's Ministry of Foreign Economic Relations and Trade (MOFERT) told Hong Kong reporters last February that reform of the country's foreign trade system had been put on hold for 1987. Measures discussed in 1986 included increasing the autonomy of foreign trade corporations while making them accountable for their foreign exchange profits and losses. In place of these reforms, leaders began to talk about implementing a form of "contract management responsibility system" in the trade corporations. Under the contract system, each foreign trade corporation would sign an agreement with MOFERT, specifying the foreign exchange the corporation would be expected to earn, and the portion to be turned over to MOFERT. []

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The Recent Turnaround Muffles Debate

Since the retrenchment, China's trade sector has shown an impressive recovery:

- The import ban has taken effect. Although shipments of items contracted for before February have continued, imports have declined 5.3 percent during the first eight months of the year compared with the same period in 1986, according to official Chinese Customs statistics.
- Exports, meanwhile, increased 23.4 percent, showing the most significant gains in the textile sector, where shipments increased 30 percent.
- Accordingly, China's January-through-August trade deficit, at \$2.4 billion, is less than a third of the \$8.2 billion level reached in the same period of 1986. Chinese

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[REDACTED]

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data suggest that the country may even have had small surpluses in merchandise trade in June, July, and August.

- These improvements were largely responsible for a \$2.7 billion surge in China's foreign reserve holdings from January through June, the last month for which data are available, to \$12.6 billion. China's state-held reserves also increased modestly, from \$2.1 billion to \$3.4 billion during the six-month period.
- China's rate of foreign borrowing may also have slowed during the year. Beijing announced in July that total borrowing from January through June was slightly above \$2 billion, only 40 percent of the total borrowed in 1986. [REDACTED]

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The fact that conservatives and reformers alike have found support for their policies in the strong 1987 trade performance figures is one reason for the apparent lack of divisiveness over foreign trade issues. Proponents of strong central control credit a recentralization of authority over imports in the last two years for the drop in the deficit, while proponents of greater decentralization cite the increase in enterprise autonomy, greater use of worker incentives, and more flexible pricing policies as the underlying factors in China's export surge. [REDACTED]

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We believe another factor muting the debate is Beijing's desire to reassure foreign governments that are members of the General Agreement on Tariffs and Trade (GATT) that political developments in 1987 have not led to backtracking on foreign trade reform. Chinese leaders recognize that the willingness of GATT members to accept China as a contracting party--of tremendous symbolic as well as practical significance to Beijing--depends, in large part, on their perceptions of how rapidly China will implement reforms to bring trade practices more closely in line with those of market economies. [REDACTED]

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Foreign Investment: The Problem Nobody Wants

New investment pledges declined 12 percent in the first six months of 1987, compared with the first half of 1986. Chinese press reports have explained the drop as the natural result of Beijing's efforts to curb investments in "nonproductive" projects in the service sector, such as hotels and restaurants. The Chinese media have also highlighted the favorable results of several recent surveys by US consulting firms that assessed China's investment climate by contacting a sample of US joint venture partners in China. [REDACTED]

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Although the drop has doubtless been a disappointment--especially since new regulations were implemented in October 1986 after a decline in new foreign investment earlier in the year--the lackluster response of foreign firms has not prompted much debate. One reason is that such debate would benefit neither conservatives nor reformers. Conservatives doubtless consider foreign investment a better way to finance China's economic modernization than foreign debt, but would nonetheless be unlikely to argue that more should be done to attract foreign investment; resolution of many of the stumblingblocks that remain would require giving foreigners greater access to China's domestic market, allowing them to convert profits in domestic currency to foreign exchange for remittance, and increasing the autonomy of individual enterprises--steps they do not endorse. Reformers are also loath to play up the disappointing numbers because they recognize that some of the changes most eagerly sought by foreign investors--such as more flexibility in converting renminbi profits into foreign currency--would inevitably exacerbate problems China is having managing its foreign exchange reserves. [REDACTED]

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The Party Congress: No New Initiatives Likely

Because concerns over the leadership succession, ideology, political structural reform, and domestic economic reform have been far more contentious than the management of China's external economic relations in recent months, we expect statements relating to China's management of foreign trade and investment to be a minor part of the document emerging from the Congress. It will probably reaffirm the strategy of absorbing foreign capital and technology to foster China's economic modernization and call for continued growth in trade and foreign investment. The document may also refer to the importance of striving for balance between imports and exports, maintaining self-sufficiency in production, and diversifying trade partners and commodities. It will probably also allude to continuing reforms of China's foreign trade system but omit specifics about what such reforms might entail and how rapidly changes might be implemented. [REDACTED]

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Dissension over particulars is another reason the document will be general. Although China's recent trade performance has muted differences among China's senior leadership over trade management, underlying problems will probably continue to be discussed by officials more directly involved in trade and finance in the months following the Congress. For example, concern over China's trade deficit has been supplanted recently by assessments of the expense of improving China's balance of trade. Many of the export gains have been made possible only by increasing state subsidies to exporters to cover the gap between the domestic costs of production and competitive international prices. Export subsidies have, in turn, further strained China's domestic budget, and will probably contribute to the projected increase in the budget deficit, as well as to increased foreign borrowing to finance it. [REDACTED]

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Chinese trade and finance officials have apparently not reached agreement on how best to wean the trade sector from the subsidies. Officials from the Ministry of Finance and the People's Bank of China advocate currency devaluation, according to diplomatic reporting. Their views are countered by other economists who contend that a devaluation would merely shift subsidies from exports to imports, since at least half of China's imports consist of chemicals and mechanical products that are essential for the economic modernization program. [REDACTED]

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More generally, discussions continue on how to coordinate foreign trade system reforms with the implementation of domestic enterprise, tax, and price reforms. MOFERT officials object to the contract management responsibility system for foreign trade because it forces trade corporations to face the irrationalities of the existing domestic price structure. An assistant minister of MOFERT argued in a recent journal that price, tax, and enterprise reform are essential to foreign trade reform. In addition, he claimed that the contract system would have limited success even as an interim measure unless subsidies were replaced by a system of tax incentives structured to encourage exports of manufactured goods rather than the heavily subsidized primary products. Discussions about the pace and scope of foreign trade reforms, changes in the way foreign exchange is allocated, the timing of a currency devaluation, and the implementation of related price, tax, and enterprise reforms will doubtless continue well into 1988. [REDACTED]

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